

# **Fiscal Services Division**

## **Legislative Services Agency**

### **Fiscal Note**

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HF 2233 - Web Search Portal Business Sales & Property Tax Exemption (LSB 6471 HV)  
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Fiscal Note Version - New

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#### **Description**

The Bill provides a sales and use tax exemption on specified equipment used in the operation and maintenance of a web search portal business. Qualifying businesses must be located in Iowa and make a minimum investment of \$200 million within the first six years of operation in Iowa. In addition, the business must purchase, option, or lease land in Iowa by December 31, 2008.

The Bill also provides a property tax exemption for property utilized by a web search portal business that qualifies for the provisions for the sales and use tax exemption.

#### **Background**

House File 912 (Web Search Portal Business Sales and Property Tax Exemption Act) passed during the 2007 Legislative Session provided tax exemptions for businesses with a primary function of operating web search portals. This Bill expands the tax exemptions to businesses that operate a web search portal business, but not as the primary business function.

#### **Assumptions**

The following assumptions were used to estimate the fiscal impact:

- One facility per year will be built for a total of two buildings in this analysis. Construction of the first building would begin on January 1, 2009, and be completed by January 1, 2010.
- Each building will have a total capital investment of \$600 million. Building and exterior equipment will be \$300 million and servers and other technology equipment will account for another \$300 million.
- Fifty percent of the investment in building and exterior equipment will be from labor and other nontaxable items.
- Section 423.3(47), Code of Iowa, currently exempts computer servers from sales and use tax. This estimate assumes that 90.0% of the servers and other technology equipment are currently exempt from the sales and use tax.
- The State sales tax rate is 5.0%. Beginning July 1, 2007, the estimated State-wide local option sales and services tax is 1.6% (includes both the county and school district local options sales tax).
- For building and exterior expenses, 48.0% of the tax year impact will be realized in the same fiscal year and 52.0% of the tax year impact will occur in the subsequent fiscal year. For the servers and technology equipment purchases, it is assumed that these expenses will occur one quarter after completion of a building.
- For property tax purposes, the investment in building structures and the land on which they are located will remain subject to property tax. Of the equipment investment amount, this assumes that 15.0% will be taxable. All of the computers, servers, and related equipment that is currently exempt from sales and use tax or made exempt from sales and use tax by this proposed legislation, would be exempt from property tax. Section 427B.17(2), Code of Iowa, currently exempts computers and machinery and equipment from property tax. It is unknown what impact, if any, will result from the additional property tax exemption language. Any property tax impact would result beginning in FY 2012.

- Local jurisdictions may provide property tax incentives. This assumption does not include any local property tax incentives.
- Growth of 4.0% annually in taxable valuation.
- The first building will be assessed beginning in 2010. Taxes payable based on that assessment would begin in FY 2012.
- Iowa's share of energy use by data processing, hosting, and related services during 2006 was approximately 1.7% of the national total. Energy usage by these types of facilities is projected to increase at an annual rate of 11.8% through FY 2012 for this analysis.
- Assumes the business will locate in an area that has the required infrastructure to support a web search portal business.
- The amount of new jobs and the average salary for the new jobs is currently unknown. However, based on a starting salary of \$48,000, the estimated income tax (from salary income only) would be approximately \$2,050. In addition, it is estimated that sales tax revenue for a family with an income level between \$50,000 and \$69,999 would be \$1,055 in FY 2010. However, the overall impact due to income tax and sales tax to the State General Fund due to the newly created jobs is unknown.
- The estimated fiscal impact does not take into account any new economic activity that may result from the proposed legislation.

### **Fiscal Impact**

The overall fiscal impact is based on the above assumptions and reflects the impact on the State General Fund and local taxes through FY 2012. Any deviations from these assumptions will have an effect on the estimated fiscal impact.

There will be no fiscal impact in FY 2008. The estimated fiscal impact of HF 2233 for FY 2009 through FY 2012 resulting from the tax incentives is provided in the table below.

**Estimated Impact Due to HF 2233 (Dollars in Millions)**

<b>State General Fund</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>
Sales and Use Tax	\$ - 3.2	\$ - 12.0	\$ - 13.0	\$ - 8.4
Uniform Levy Replacement for School Aid	\$ 0.0	\$ 0.0	\$ 0.0	Unknown
<b>Total General Fund Impact</b>	<b>\$ - 3.2</b>	<b>\$ - 12.0</b>	<b>\$ - 13.0</b>	<b>\$ - 8.4</b>

  

<b>Local Tax Impact</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>
Local Option Sales and Services Tax	\$ - 1.0	\$ - 3.9	\$ - 4.3	\$ - 2.7
Local Property Tax	\$ 0.0	\$ 0.0	\$ 0.0	Unknown

### **Sources**

Fiscal Note for HF 912, 2007 Legislative Session  
LSA calculations

/s/ Holly M. Lyons

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The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.